

Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 EB-11 COME-00 TRSE-00 SCI-06 FEA-02

INT-08 CIEP-02 OMB-01 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03

SS-20 USIA-15 DRC-01 NEA-11 /134 W

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R 230110Z JAN 74

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 469

INFO AMEMBASSY SINGAPORE

AMCONSUL SURABAYA

AMCONSUL MEDAN

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E.O. 11652: GDS

TAGS: ID, ENRG, CONTRACT

SUBJ: ENERGY: OIL CONTRACT MODIFICATION

REF: A) STATE 12936 (NOTAL) B) SINGAPORE 222 (NOTAL)

C) JAKARTA 12474 (NOTAL)

1. SUMMARY: OIL COMPANY/PERTAMINA/MIGAS ARE NOW DISCUSSING OIL CONTRACT MODIFICATIONS DESIGNED TO INCREASE GOI TAKE OF "WINDFALL PROFITS" RESULTING FROM LATEST ROUNDS OF PRICE INCREASES. DURING CONVERSATION JANUARY 21, GEN. IBNU CONFIRMED TO AMBASSADOR PREVIOUS REPORTS THAT FORMULA PERTAMINA IS SEEKING WOULD PROVIDE FOR SPLIT OF 90/10 (PERTAMINA/COMPANY) ON EVERYTHING OVER \$5.00 PER BARREL. INDICATIONS ARE PIVOTAL NEGOTIATIONS WILL BE CONCLUDED SOON, PROBABLY THIS WEEK. END SUMMARY.

2. IN LATE DECEMBER AND EARLY JANUARY SOME PRESS REPORTS APPEARED CRITICIZING PERTAMINA FOR NOT OBTAINING MAXIMUM RETURN FOR DEVELOPMENT OF OIL RESOURCES. IN EARLY JANUARY, FOLLOWING MEETING WITH PRESIDENT SUHARTO TO DISCUSS REALIZED CONFIDENTIAL

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PRICE INCREASE TO \$10.80 FOB PER BARREL, PRESS REPORTED IBNU

SAID RETURN TO INDONESIA WAS AT LEAST AS GREAT AS THAT TO MIDDLE EAST COUNTRIES. ABOUT JANUARY 10, ON HIS RETURN FROM GENEVA OPEC MEETING, GOI DIRECTOR FOR OIL AND GAS WIJARSO INITIATED MEETINGS WITH PERTAMINA, CALTEX, STANVAC, ARCO AND UNION OIL TO DISCUSS CONTRACT MODIFICATIONS TO INCREASE GOI SHARE OF WINDFALL PROFITS RESULTING FROM LATEST PRICE INCREASE TO \$10.80 PER BARREL. EMBASSY LEARNED JANUARY 11, THAT IBNU TOLD PERTAMINA WASHREP BENSON NIGHT BEFORE THAT CONTRACTS WOULD BE MODIFIED TO PROVIDE 90/10 SPLIT ON PRICE OVER \$5.00 PER BARREL. THAT EVENING, TIRTO UTGSO (PERTAMINA'S LEGAL AND FOREIGN MARKETING DIVISION) CONFIRMED THIS TO EMBOFF ADDING THAT MODIFICATION WOULD PROBABLY ALSO RELATE OIL PRICES AND U.N. COMMODITY INDEX.

3. DURING FAREWELL MEETING JANUARY 21, IBNU TOLD AMBASSADOR NEGOTIATIONS WERE ALMOST COMPLETE BUT THAT "OIL COMPANIES WERE GRUMBLING". IBNU SAID HE TOLD THEM THAT IF THEY WISHED TO MAKE MORE THAN THE \$2.00 PROFIT PER BARREL THEY WOULD BE MAKING UNDER THE FORMULA HE PROPOSED, HE WOULD RAISE THE OIL PRICE BLAMING COMPANIES FOR INCREASE. IBNU GAVE AMBASSADOR

EVERY INDICATION HE DID NOT INTEND TO BUDGE FROM PROPOSED FORMULA, IMPLYING THAT HE EXPECTED COMPANIES TO COME AROUND AFTER THEY STOPPED GRUMBLING. (EMBASSY LEARNED FROM STANVAC THAT WHILE INVOLVED IN NEGOTIATIONS, STANVAC PLANS TO FOLLOW CALTEX LEAD BUT HOPES BASIC PRICE FOR 90/10 SPLIT WOULD BE \$6.00 RATHER THAN \$5.00.)

4. ON JANUARY 17 WIJARSO TOLD EMBOFF HE EXPECTED AGREEMENT ON MODIFICATION BY END THIS WEEK. MIGAS/PERTAMINA MEETING THIS AFTERNOON WITH IIAPCO, ARCO AND TREND.

5. COMMENT: BASED ON VARIOUS REPORTS IT IS CLEAR THAT (1) CONTRACTS WILL BE MODIFIED, (2) DECISION WILL BE ANNOUNCED SOON, PERHAPS BY END THIS WEEK AND (3) THAT FORMULA WILL PROBABLY BE CLOSE TO 90/10 SPLIT ON EXCESS OF PRICE OF ABOUT \$5.00. IT IS NOT CLEAR, HOWEVER, WHETHER 90/10 SPLIT WILL BE CONFIDENTIAL

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IN OIL OR PROFITS.

6. PRELIMINARY INDICATIONS ARE THAT IBNU, ALTHOUGH NOT DIRECTLY INVOLVED IN NEGOTIATIONS, HAS PLAYED KEY ROLE IN ESTABLISHING BASIC POLICY, PERHAPS IN PART REACTING TO DOMESTIC AND INTERNAL GOI PRESSURE AND TO REPORTS THAT OTHER COUNTRIES, INCLUDING U.S. AND OTHER OPEC COUNTRIES, ARE CONSIDERING

COMPARABLE WINDFALL PROFIT TAX ON OIL COMPANIES. FACT THAT DISCUSSIONS ARE TAKING PLACE AT ALL INDICATES GOI/PERTAMINA WISHES TO GIVE COMPANIES SAME OPPORTUNITY TO MAKE THEIR CASE. AMBASSADOR IS SEEING CALTEX SHAREHOLDERS' REP MARTIN TOMORROW, AFTER WHICH WE WILL REPORT ANY ADDITIONAL INFORMATION.

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM PRODUCTION, CONTRACTS, MEETINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 23 JAN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974JAKART00921
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: n/a
From: JAKARTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740122/aaaaauky.tel
Line Count: 123
Locator: TEXT ON-LINE
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: A) STATE 12936 (NOTAL) B) SINGAPORE, 222 (NOTAL)
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 20 JUN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20 JUN 2002 by elyme>; APPROVED <26 DEC 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ENERGY: OIL CONTRACT MODIFICATION
TAGS: ENRG, ID, ASAMERA OIL CORP
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005